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RUMANIA'S BANKING PLAN

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Planned Circulation of Cash

Economic planning presents two aspects: (a) regulation of the material processes of production and the circulation of goods; and, (b) regulation, through the financial plan, of the financial relations which result from these processes.

Financial planning also has various aspects and ramifications; the financial plan includes the general state budget, the plan of credits, the circulation of money, which is the responsibility of the State Bank (Bank of the Rumanian People's Republic), and the financial plans of the socialist enterprises.

The plan for the circulation of money, or, as it is usually called, the banking plan, is one part of the financial plan and as such has its part in the state plan. Once money enters the economic sphere, it can serve only the aims for which it was put into circulation.

Planned circulation of money presupposes systematic regulation, conforming to the objectives of the state plan, of all institutions, enterprises, and organizations. Planned monetary circulation promotes a strict financial discipline and a more judicious use of money.

Issuing banks in capitalist countries, serving the interests of the bourgeoisie, put money into circulation primarily through the credits accorded to capitalists.

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In contrast to the capitalist issuing banks, the socialist-type State Bank can control not only the volume and the movement of the money put into circulation but also the operations effected by this money, and thus can assure monetary stability. The State Bank, upon receipt of directives from the government, can establish a monetary policy which will conform to the objectives of the state plan. The banking plan is the technical means used by the State Bank.

Most of the cash funds of the national economy are in treasurer, clearing and settlement accounts which the institutions, enterprises, and financial organizations are required to open at the State Bank. All payments between the titularies of these accounts are made by the balancing of mutual obligations, that is, without the movement of hard currency.

A part of the money resources of these accounts is converted, however, into cash in the course of production and circulation of goods, to effect certain disbursements which require cash -- salaries, loans, and pensions. This cash is returned to the State Bank through the deposits of the state stores, cooperatives, and service and amusement enterprises by direct and indirect taxes, and by saving accounts.

The banking plan provides for the issuance of cash and its withdrawal from circulation. Under the state plan, this plan is the instrument for regulating all deposits and withdrawals of cash from the state treasury. The plan maintains a constant balance between the amount of cash in circulation and the quantity of available goods. This equilibrium is one of the essential conditions for the stabilization of money and the harmonious development of economic activity.

Instrument of Monetary Policy

By applying the banking plan, the State Bank maintains a record of movement of money. The banking plan exposes the difference between the deposits and disbursements of sectors of the economy during the planned period, and shows not only the fluctuation of the total volume of cash in circulation but also the basic reasons for these variances. Consequently, by steps such as acceleration of the circulation of goods, using local resources, transferring stocks of goods from one region to another, and the intensification of local transport, an equilibrium between goods and money is maintained.

During the execution of the banking plan, situations may arise which will cause great differences between deposits and disbursements. If the withdrawals have a tendency to exceed the deposits, this may lead, in some cases, to an excessive amount of cash in circulation. If so, the State Bank is notified and in turn it will report to the responsible authorities and will point out the sectors in which this inequality exists and the reasons for it. The State Bank may recommend the practical measures needed to check this situation.

The measures may be of a general nature, such as advocating larger deposits, disposing of existing stocks, or providing local cooperatives and stores with a better supply of goods.

Some measures may be limited to a single enterprise. In this case, the bank which serves the enterprise may recommend special measures to reduce the cash withdrawals by lowering costs or by increasing the deposits through liquidation of some of the stocks of goods which are being held by the enterprise. The bank is thoroughly aware of the situation at the enterprise from the execution of the banking plans and from the reports of the auditors.

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In the Rumanian People's Republic, the planned circulation of money could not be effected until after the main economic enterprises had passed over into the hands of the state. The banking apparatus had to be reorganized; the capitalist banks had to be liquidated and the State Bank established. Decree No 320, of 15 November 1948, establishing the Bank of the Rumanian People's Republic required all institutes, enterprises, organizations, and establishments of any type to deposit their cash in, and to conduct all depositing and withdrawing operations by, accounts opened at the State Bank under conditions and limitations fixed by the bank.

In applying this disposition, the State Bank issued on 9 February 1949 a decision which regulated the opening of accounts by all units listed in Decree No 320 and also the obligation for these units to pay into their accounts all money, with the exception of cash needed for small and urgent expenses. The amount of cash was established by agreements between the State Bank and the respective institutions or enterprises. The decision also fixed the regulations under which cash deposits were to be made to the bank. The general outline of the planned circulation of money was given in this same decision. The planned circulation of money was to begin in the second quarter of 1949.

The second and third quarters were to be of an experimental nature, serving to adopt the Soviet technique, which has been taken as a criterion, to the present stage of changing from capitalism to socialism. At this time, there has been a gradual introduction of work in the units which are included in the plan.

During the first quarter of 1949, the Rumanian banking plan made rapid progress. To fulfill its aim, the banking plan must include all units which handle money. Because of the inherent difficulties of such a new and vast work, only a limited number of the units could be introduced into the plan during this quarter.

At the beginning, the information needed for the plan was collected from the treasury records and was used by the State Bank to establish the credit requirements of the enterprises. The planned monetary circulation had to be limited to the sectors over which the State Bank exercised credit control.

After the economic sectors were organized, the enterprises included in the planned monetary circulation were increased. In the third quarter of 1949, the economic units of the People's Councils, many cooperative units, and the Bank of Savings and Postal Checks were included in the plan.

In contrast to the second quarter of 1949, when cash transactions predominated, in the third quarter the enterprises made payments from their accounts with the State Bank. Steps were taken to improve the method of operation in the third quarter.

Decision No 1,022 of the Council of Ministers, dated 24 October 1949, marked a new step in the planned circulation of money and now the banking plan came into legal existence. This decision provided that all institutes included in the budget of the state administration or in the administrative budgets of local organs of the state, state enterprises and economic organizations, cooperative organizations, associations, establishments, as well as all private enterprises which had opened accounts at the State Bank or at other credit institutions, must establish a banking plan.

On the basis of the banking plans drawn up by the enterprises, previously checked by the banks in which the enterprises have accounts, the State Bank draws up the general banking plan for the entire country.

After the plan has been drawn up, it is submitted for approval to the Council of Ministers by the Minister of Finance through the State Planning Commission. Once approved, the plan is obligatory both for the banks and for all units included in the plan.

Operation of Banking Plan

To stabilize the volume of cash deposits and withdrawals during any quarter, the State Bank and credit institutions must consolidate the bank statements of those units which regularly deposit or withdraw cash from them. These statements represent the total amount of cash needed by the units for a 3-month period. From the statements which each unit must make, no matter with what credit institution it has opened an account, the following principles must be kept in mind.

1. Restrict to a minimum the cash transactions and increase interaccount settlements. Estimate the volume of cash deposits and withdrawals that are made by clients and suppliers of the units, whether the former belong to the state sector or are private and without an account at the bank. Actually, payments between state institutions and enterprises are effected by interaccount settlements -- conforming to Decree No 265 of 1949 -- so that only private enterprises without a bank account conduct business on a cash basis.

2. Record cash transactions, when and where they occur, by the state cashier's offices. This avoids a double record of these sums, which would give an incorrect documentary nature to the cash transactions.

3. Obtain information from the statements relating to the production plans or activities of the economic units and to the budgets of the state institutions and People's Councils.

4. Separate completely data referring to production from investment data.

5. Establish, by state agencies, the amount of cash needed for small and urgent expenses. This amount will be maintained by withholding the necessary sums from the receipts. The remainder of the receipts will be paid into the bank with which the units deal. All cash requirements above this sum will be covered by withdrawals from the bank. Units which do not receive cash, or are required to pay into the bank all cash receipts, will withdraw directly from the bank the amounts needed for petty cash.

Because of the special operations of the enterprises and the economic organizations and also the activities of the authorities and the People's Councils, four types of bank statements have been established. These types are given in Decision No 1,022 of 1949.

Economic units and groups or social organizations must also fill out special forms. These provide for "crediting" the sums which are received by their own treasurer and for "debiting" the sums received from the bank. Payment of wages will be covered completely by withdrawals from the bank. This measure has been taken because wages represent the most important cash transaction, and, as such, must be kept completely apart under the banking plan for the whole country.

Cash operations of state institutions and authorities and also of the ministries and People's Councils must be recorded on forms which show receipts and expenditures.

Cash payments made by units for investment work must also appear on the bank statements, under a separate entry, whether the work is being performed by the administration or by contract.

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Bank statements are consolidated and checked by the credit institutions with which the unit deals, that is, by the offices of the State Bank (branches and agents) and by other banks.

The information in the statements is next placed in one of three categories, depending upon whether the cash transactions are receipts and disbursements of the economic units of the state agencies (central or local), collection of taxes, or other state revenue.

The reports are consolidated and show the cash transactions at the tellers' windows by source of deposit and category of payment. The reports, which are kept separate for each agency and branch of the State Bank, are compiled for each respective judet but the report for Bucharest is kept by the central bank. Other credit institutions also compile similar information about the enterprises which have accounts with them. The State Bank then arranges the over-all banking plan for Rumania.

This plan shows the entire cash transactions by the tellers in the state banks, indicating the sources by which cash is withdrawn from the market and the arteries through which cash is sent to bolster economic activities. This general banking plan is submitted for approval to the Council of Ministers which has the right to modify it.

The approval plan becomes definitive and must be followed by the bank and all units which have drawn up banking statements. Each judet is allowed to make changes in keeping with the local economic conditions. These changes are reported by the State Bank to the affected units, which, in turn, must adapt their cash operations to the modifications of the original banking plan.

The duties of the State Bank in the planned circulation of money are very complex. The bank must not limit itself to be merely a cash box for the planned economy or simply to record the cash transactions of its branches. The State Bank supervises the circulation of money so as to provide for the fulfillment of the state plan. With this in view, emphasis is placed on the main duty of the agencies of the State Bank: discouraging cash transactions and at the same time encouraging cash deposits to avoid cash payments in excess of the plan.

Execution of the Banking Plan

The execution of the banking plan is along two lines: individual, by cards held in the banking institutions for each separate unit; and, over-all, by journals in which the cash transactions of the bank tellers are recorded according to the source of deposits and to the category of disbursements.

The individual card is a record of the cash transactions for each unit and shows the sums provided under its definitive banking plan. On this card, the total amount of deposits and withdrawals planned for each heading is recorded and also the record of the actual cash deposits and withdrawals as they occur.

The anticipated cash transactions are recorded on the card so that a constant comparison can be made between the separate cash transactions for each category of disbursement and the estimated amounts under the banking plan.

Cards for special operations are also kept for units which have clearing accounts and for units which have treasurers' accounts at the State Bank (authorities and People's Councils).

There are also cards which record all cash operations when and where these occur and cards for cash operations which do not concern the clearing or treasurers' accounts opened in the respective banking offices.

As previously stated, units may not exceed the expenditures established by their banking plan. Every effort must be made to keep within the established amounts, because every withdrawal above the planned figure means so much more cash is placed in circulation than is provided under the banking plan.

So that the exact use of the disbursements in each category may be kept apart, expenses may not be exchanged between categories. For this reason, cash left over at the end of one month may not be used in the following month, except for wages.

The execution of the banking plan has three phases: (1) receipt and auditing of vouchers presented by clients, indicating the section of the banking plan to which these belong; (2) prior control of disbursements to be sure that they are within the limit of the existing provisions of each sector and to see whether the disbursements could not be effected through interaccount transactions; and (3) recording the operations on cards and in journals.

The cash deposits and withdrawals are kept on cards and in journals for each separate unit. The journals have entries of all operations, kept by source of deposit and category of disbursement. These journals show the volume of cash deposits and withdrawals which have been effected by the State Bank and other credit institutions. Through the examination of these journals, the movement of cash can be studied for any given period.

The journals of receipts and disbursements are kept separately to show the cash transactions of the clearing section and of the treasury section.

Thus, the manner in which the banking plan is being carried out by an agency of the State Bank can be determined. A report must be sent to the central bank for each 10-day period and for the entire month. On the basis of this information, the central bank reports the consolidated situation for these periods. In this way, the existing deficiencies are easily seen and steps can be proposed to eliminate them.

The compilation of information from the entire country offers the State Bank a means of ascertaining whether or not each of its branches is following all of its individual obligations under the banking plan.

Other credit institutions follow the same plan as the State Bank in the execution of the banking plan.

Operative Banking Plan

The technical means of the day-to-day execution and control by agencies of the State Bank is called the "operative banking plan." Each agency draws up an operative banking plan every month.

The operative banking plan includes: assignment of the provisions outlined in the banking plan to units; adaptation of these provisions to the conditions prevailing during the month; and the division of the total amount of receipts and withdrawals into daily quotas.

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The division of work in the banking plan among the units is necessary, especially if there is a difference between the plans of the banking agencies and the approved banking plan. These differences, which consist of reducing the cash disbursement and increasing the cash deposits, must be shared by the various units included under the plan.

The role of the agency in this respect is such that, on the basis of previous experience and through consultation with the directors and accountants of the units, it can properly plan the reduction of disbursements and the increase of deposits for each unit. The operation must not be of a bureaucratic nature; the agency of the bank should give all possible advice so that the units may fulfill their obligations.

The operative banking plan must be prepared for contingent changes which may occur in the local economic situation and must make appropriate changes in the banking plan. These changes in the banking plan must be in keeping with the principle that only the amount of receipts should be increased.

The only admissible exception is when the increase in cash disbursements brings about a corresponding increase in production or as great an increase in cash deposits. However, this exception must be approved by the Central Bank Administration.

In short, the operative banking plan is only a means to keep a daily balance between the cash receipts and disbursements of a banking agency.

Establishing daily quotas of cash receipts and disbursements, wherever possible, is followed to obtain this balance. Receipts and disbursements which are planned in this manner are called "daily schedules of deposits and withdrawals" and, over the period of a month, constitute the operative banking plan of a banking agency.

The daily schedule of deposits and withdrawals is arranged, after consultation with the representatives of the units included in the banking plan, to find ways of spacing, postponing, and possibly suppressing cash withdrawals.

Operative Fund and Intangible Reserve

If the cash deposits and withdrawals for a particular day do not balance, this is the result of one of two conditions; the deposits are greater than withdrawals, which leaves the banking agency with a favorable cash balance; or, the withdrawals are greater than the deposits. In the latter case, the banking agency is required to cover the difference from its cash reserves.

The cash reserves of the banking agency are increased by the cash deposits and decreased by the cash withdrawals. These cash reserves constitute the operative funds of the agency.

The operative fund exists at every branch and banking agency. It is the same as the working fund of the State Bank, but is limited and cannot exceed an amount specified by the State Bank in accordance with the needs of the particular agency.

These requirements are determined by the average of the daily deposits and withdrawals established under the banking plan for the agency, except special withdrawals, which will be discusses later.

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By spacing, postponing, or stopping some withdrawals to aid the daily schedule of deposits and withdrawals, the agency will be in a position to cover the current withdrawals by using only the operative fund.

This fund may be insufficient on certain days, despite all efforts of the agency to maintain a balance between deposits and withdrawals. This is especially true with respect to wages and collections which require large sums of cash; and, even by spacing the withdrawals, the deposits will not cover the withdrawals on some days.

Consequently, each banking agency has a special fund called the "intangible reserve" in addition to the working fund. This intangible reserve is supplied from the deposits which exceed the withdrawals in the maximum working fund, or, as a last resource, from allocations by the Central Bank. If the banking agency cannot cover the withdrawals because the operative fund is insufficient, this fund may be supplemented from the intangible reserve, but only with the approval of the banking authorities.

Increasing the working fund from the intangible reserve may be done only on the following specific occasions:

1. The operative banking plan provides for withdrawals greater than deposits. If the daily schedules for deposits and withdrawals clearly show times when the deposits will not be sufficient to cover the withdrawals, and the withdrawals must be covered, the agencies may use the intangible reserve if they have requested and received permission from the Central Bank.

2. If, during the execution of the operative banking plan, unforeseen amounts of cash are needed to cover withdrawals, since the needed cash can be supplied only from the intangible reserves, the agency may request permission to use these reserves to supplement the working fund. The manager of the agency must exhaust every other possibility before requesting cash to supplement the working fund.

3. Extra cash is needed when cancelled currency is recalled. The cash needed to replace cancelled currency is taken from the working fund. This amount is then automatically replaced by funds from the intangible reserve, without the approval of the Central Bank

The mechanics of the working fund and the intangible reserve, based on the provisions of the banking plan, are such as to maintain the circulation of cash at a constant level. Whenever the cash operations of the banking agencies do not exceed the limits of the working funds, the volume of cash in circulation does not vary appreciably. Whenever the reserves of the working fund are increased by using the intangible reserves, the volume of cash in circulation grows.

The increase of cash in circulation is not always due to a rise in withdrawals, since the intangible reserve is not increased by withdrawals. Once cash passes into the working fund, the amount of money in circulation is increased.

For this reason, the intangible reserve funds must be used with caution to maintain a balance between cash and available goods. If this balance is not kept, the stability of the currency is threatened. This explains the rigid restrictions which apply to the use of the intangible reserve funds. The purpose to which these funds are to be put must be carefully considered.

Checking Execution of the Banking Plan

In addition to the supervision of the execution of the banking plan at the cashiers' desks of the State Bank, there is supervision of the cash operations at the units by bank examiners.

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The examiners must see that the units follow the legal dispositions relative to depositing cash, using the base funds, and utilizing sums received from the bank. These examiners also check to see whether cash payments can not be effected by interaccount clearing.

The examiners are not limited to ascertaining infractions. They also guide, instruct, and collaborate with the managers of the units, so that the banking plan may be carried out under the best conditions. The ultimate goal of the examiners' work is to reduce payments in cash to a bare minimum and, conversely, to increase cash deposits.

The card of the units kept at the banking agency shows how well the plan is fulfilled in comparison to the provisions of the plan.

Two facts can be determined from the record cards: (1) the plan is being fulfilled properly with respect to deposits and withdrawals; or, (2) the results do not correspond to the plan.

If the plan is being carried out, the examiners will determine whether the enterprise has kept within its prescribed working fund and has sent the excess to the State Bank. They will also check whether the payments out of the enterprise's own treasury -- up to the limit of the working fund -- have been for small and urgent expenses which could not be regulated by interaccount operations.

The examiners will also verify that wages have not been taken from the treasury of the enterprise, because, under the existing regulations, these are to be paid by the State Bank; that payments have not been made from funds set aside for operation; that cash payments could not have been replaced by interaccount operations; and that the sums received from the State Bank have been used for the purposes for which they were requested.

The fact that the cash deposits have been in keeping with the plan does not means that an enterprise has executed the obligations of the plan, because the deposits which should have been made by interaccount operations may have been made in cash.

The agencies of the State Bank, which exercise the control of money, do not merely verify the execution of the banking plan, but, investigating the entire activity of the enterprise, act to prevent the tendency to stock unsold goods. Excessive supplies of raw materials and fuel must be avoided because they represent a freezing of funds.

If the banking records show that a unit is not fulfilling its plan, the inspecting and controlling agencies make an on-the-spot check to determine the causes of the deviation from the plan. Some of these causes are:

1. Cash deposits may fall below the planned amount, due to the following situations:

a. The enterprise has kept in its treasury more than the established amount of cash, or has made payments out of its receipts over and above the allotment.

b. The enterprise has not fulfilled its production or its distribution plan. The banking agencies may become aware of this situation either from the established production plan or from the accounting department of the enterprise.

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2. Irregularity in the plan may be due to deposits in excess of the plan, which may arise from the following conditions:

a. The enterprise may have deposited more cash than was planned by reducing the deposits for interaccount clearing. In this case, a check must be made to see if the cash deposits cannot be replaced by interaccount deposits.

b. The enterprise may have increased production. In this case, a check must be made to see if there is a relationship between the increase in production and the increase in cash deposits. Exceeding the plan for deposits may constitute a favorable factor in the fulfillment of the banking plan, especially if this is due to increased production. If this excess is only the result of payments in cash instead of payments by interaccount operations, there is an error in the fundamental principles of the banking plan and steps must be taken so that these principles may be respected.

c. The requirements for cash are greater than the established amounts. Institutes, enterprises, and organizations are obliged to respect the amounts to be disbursed under the established banking plan and, in principle, should never exceed these amounts. Only in very exceptional cases will such excesses be approved, and then only after verification of the necessity. This approval is granted by the State Bank.

d. Cash receipts are less than the established amounts. When this condition results from a decreased production, agencies of the bank are empowered to investigate the causes.

The control of the execution of the banking plan by the bank's agencies is not limited to ascertaining deficiencies in the banking plan. These agencies attempt to find the causes for the deviations.

The technique of drawing up, executing, and controlling the banking plan has been introduced step by step in Rumania, after having been initiated and perfected in the USSR. The difference between the Soviet and the Rumanian banking plans lies in the fact that Rumania is in a transitional state between capitalism and socialism and a relatively large part of the circulation of cash takes place outside of the socialized section.

It is true that even in the USSR there is a small amount of circulating cash which cannot be included in the plan -- especially the portion which arises from trade in the kolkhoz markets. The sum is insignificant when compared to the total amount involved in the planned economy, with its plan of regulated circulation of cash.

The very recent introduction of the banking plan in Rumania is another point of difference. There has not yet been sufficient time to apply the system in its entirety. Rumania is actually in the transitional phase; the monthly operative banking plans still have not been introduced.

In spite of all these shortcomings in the Rumanian plan, it is nevertheless a truly revolutionary movement toward the control of the circulation of cash

Even before the introduction of the banking plan, a series of reforms was undertaken which put an end to capitalist arbitrariness in the matter of monetary circulation. Credit was no longer granted according to a capitalistic banking system, which favored the interests of the bourgeoisie and large landowners. The State Bank now grants credits and pledges itself to help build socialism. For this reason, credits have been granted which are to be used exclusively to help production and the circulation of goods.

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Through these reforms, the stability and purchasing power of Rumanian currency has been increased. Cash circulation has ceased to be "regulated" as in capitalist countries by the indirect means of keeping a ratio between the gold reserve of the issuing bank and the amount of money in circulation. This ratio, at a time of the general crisis of capitalism, lost all practical value. Rumanian monetary stability reflects the stability of Rumanian economy on its road toward socialism. The instability of capitalist currencies reflects the anarchy of the capitalist system.

In keeping with her planned economy, Rumania had to regulate the circulation of money along totally new lines. The banking plan strengthens the position of money not only by vigorous financial control introduced into the financial operations, but also by a deliberate agreement between the monetary policy of the government and the data of the state plan.

In this sense, the totally new principle of the planned circulation of money, as applied in Rumania, will successfully contribute to the solution of the problems connected with the economic development of the Rumanian People's Republic toward socialism.

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